



REGISTRY OF FRIENDLY SOCIETIES
BUILDING SOCIETIES ACTS, 1894 AND 1960

EXAMINATION INTO THE
AFFAIRS OF
LLOYDS PERMANENT BUILDING
SOCIETY

INTERIM REPORT OF THE INSPECTOR

(Appointed by the Chief Registrar of Friendly Societies
pursuant to Section 5 of the Building Societies Act, 1894
and Section 13 of the Building Societies Act, 1960)



LONDON

HER MAJESTY'S STATIONERY OFFICE
1961

ONE SHILLING NET

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LLOYDS PERMANENT BUILDING SOCIETY
Register No. 335b

INTERIM REPORT OF THE INSPECTOR APPOINTED TO EXAMINE INTO AND REPORT ON THE AFFAIRS OF THE SOCIETY, PURSUANT TO THE PROVISIONS OF SECTION 5 OF THE BUILDING SOCIETIES ACT, 1894 AND SECTION 13 OF THE BUILDING SOCIETIES ACT, 1960.

Introduction

1. I was appointed Inspector by the Chief Registrar of Friendly Societies on the 3rd February, 1961.

2. The grounds upon which the Chief Registrar proposed to appoint an Inspector were communicated to the society in the following terms:—

- "(1) The increasingly difficult financial position of the Society as the result of the abnormally large number of applications for withdrawal of share monies by investing shareholders of the Society.
- (2) The preference given to certain investors in repayment of their shares before those who have made earlier application for withdrawal.
- (3) The failure of the board of directors, and in particular the chairman and secretary, to give proper attention to the affairs of the Society."

3. Under the provisions of section 13 of the Act of 1960 the society was entitled to give the Chief Registrar an explanatory statement in writing by way of a reply within fourteen days of receiving the information. The society, however, made no formal reply but two of the directors, Mrs. B. M. Jones and Mrs. J. I. Jones, submitted written representations which are reproduced as appendices A and B to this Report.

4. I commenced my enquiries on the day of my appointment and it soon became apparent to me that there was a situation of such administrative and financial uncertainty within the society that it was urgently desirable that a report on the existing position should be made available to the members without delay. I, therefore, decided to submit an interim report as soon as I was able to assess the position with reasonable clarity.

Formation and Development of the Society

5. The society was incorporated under the Building Societies Act, 1874 on the 28th October, 1954 but it did not commence active business until January, 1955. The signatories to the application for incorporation were three members "Janet Jones," "J. I. Herman," "B. M. Jones" and the secretary "Robert Jones." The secretary informed the Registrar by letter dated 28th March, 1955 that Robert Jones, J. I. Herman, J. Jones and B. M. Jones had taken office as directors of the society. Mrs. J. I. Herman subsequently married Mr. Robert Jones. Mrs. J. Jones (Mr. Robert Jones's mother) died in November, 1960, but the resulting vacancy on the Board was not filled up. The other three directors Mr. Robert Jones, Mrs. J. I. Jones and Mrs. B. M. Jones, continued in office. There had been no other directors of the society up to the time of my appointment as Inspector.

6. The society expanded rapidly, as the following figures show:—

Year (31st December)	Investing Members	Assets £
1954	Nil	Nil
1955	297	177,122
1956	762	443,391
1957	1,723	1,045,559
1958	3,976	3,169,239
1959	6,865	4,840,195

7. This expansion was achieved by widespread advertising. Up to the end of 1959 the society had spent over £62,000 on advertising representing nearly a third of its total management expenses and equivalent to more than 10 per cent of its total income.

8. The Society for most of the period of its existence has consistently paid appreciably higher rates of interest to its shareholders than those of most other building societies and in turn has charged its borrowers correspondingly high rates, ranging up to 8½ per cent per annum for owner-occupiers and up to 10 per cent for builders. In addition, borrowers have been charged an initial "indemnity premium" of £7 10s. 0d. per cent as consideration for advances in excess of 80 per cent of the valuation of the mortgaged property. These "indemnity premiums" were taken to a "Mortgage Reserve Account" up to the end of 1958 when the amount had accumulated to £22,336 but in 1959 they were credited to the general income of the Society and the balance in the account was transferred to General Reserve.

9. Despite the high rates of interest charged to borrowers the expansion of the Society was not accompanied by a correspondingly adequate accumulation of general reserves. The reserves at the end of 1955 represented 0·57 per cent of the assets; at the end of 1956, 1·3 per cent; 1957, 1·4 per cent; 1958, 1·2 per cent; 1959, 1·3 per cent. The ratio of 1·3 per cent at the end of 1959 is based on the amount shown as "General Reserves" including the balance of £22,236 in the Mortgage Reserve Account referred to in the preceding paragraph and the indemnity premiums received during 1959 (£30,500). Without these indemnity premiums the general reserves of the Society would have been approximately 0·2 per cent. These indemnity premiums were presumably charged as an insurance against the risk taken by the Society in making advances in excess of 80 per cent and consequently until the risk is removed it is questionable whether they should be regarded as free reserves.

10. At the end of 1959, the Society had 6,865 share investors, 2,651 depositors and 1,426 borrowers. Share investments totalled £4,476,331, deposits £101,163 and mortgage balances £3,993,526. Included in the mortgage balances was a sum of £738,563 representing 21 mortgages where the debt exceeded £5,000. These ranged up to £146,000 and most of them had been advanced in 1958 and 1959.

Registrar's Enquiries and Orders

11. On 20th May, 1959, notice was served on the Society under section 11(3) of the Prevention of Fraud (Investments) Act, 1958, requiring the Society to produce to the Registrar all books, accounts, deeds, and other documents relating to the business of the Society, and to furnish such other information relating to that business as he considered necessary for the exercise of his powers under the section.

12. On 19th February, 1960, the Registrar served notice on the Society of his intention to make an order under section 11(1) of the Prevention of Fraud (Investments) Act, 1958, forbidding the Society from inviting subscriptions for its securities or deposits. The grounds upon which it was proposed to make an order were stated by the Registrar as follows:—

- "(1) The unsatisfactory reserve position in relation to the total assets of the Society.
- (2) Inadequacy of security for the advances in respect of the 'Oak Farm' properties, resulting in a position of potential loss which would jeopardise the Society's solvency.
- (3) Division of mortgages artificially thus avoiding disclosure of details in the Schedule of the annual accounts.
- (4) The unauthorised deposit of large amounts of the Society's 'liquid' funds on terms which require up to six months' notice of withdrawal."

13. The Society was entitled to make representations to the Registrar in respect of the proposed order within a period of one month from the date of service of the notice. Representatives of the Society appeared before the Registrar for this purpose on the 18th, 22nd and 25th March, 1960.

14. On the 6th April, 1960, the Registrar made an order in the terms stated on the grounds already communicated to the Society.

15. On the 20th October, 1960, the Chief Registrar served notice on the Society under section 8 of the Building Societies Act, 1960, requiring the Society to produce to him all the books, accounts, deeds, and other documents relating to the business of the Society.

16. On the 17th November, 1960, the Chief Registrar gave the Society and the individual directors notice that he proposed to make an order applying subsection (2) of section 6 of the Building Societies Act, 1960. The application of subsection (2) of section 6 has the effect of prohibiting the Society from accepting any subscriptions for shares or deposits or loans. The considerations which led the Chief Registrar to conclude that it would be in the interests of persons who had invested or deposited or might invest or deposit money with the Building Society to apply subsection (2) were stated as follows:—

- "(1) Acceptance by the Society of substantial sums by way of new investment in the Society's shares whilst repayments of share investments for which applications had been made, in some cases several months before, were still outstanding.
- (2) Discrimination by the Society in respect of applications for repayment of shares whereby certain investors have been repaid in advance of other investors whose applications were in priority of time.
- (3) Advances on mortgage by the Society to the Chairman of the Board of Directors whilst applications for withdrawals of shares were still outstanding.
- (4) Use of the Society's premises and office facilities by Freehold Land Finance Company Limited without definite and satisfactory financial arrangements.
- (5) Inattention to the affairs of the Society by the Board of Directors whose meetings have been held only quarterly since an order was made under section 11 of the Prevention of Fraud (Investments) Act, 1958.
- (6) Unauthorised disbursement of £6,530 purporting to be director's fees to the Chairman of the Board of Directors.

(7) Low ratio of the reserves to the total assets of the Society.

(8) Adverse result of the Society's operations during the current year resulting in an estimated loss of £30,000 for the period 1st January, 1960 to the 30th June, 1960, with an estimated further loss since that date."

17. The Society was entitled to make representations to the Chief Registrar within a period of fourteen days from the service of the notice. No representations, however, were made by the Society and the Chief Registrar with the consent of the Treasury made an order applying subsection (2) of section 6 on 16th December, 1960.

Present Financial Position of the Society

18. At my request, the Society's accounts department has produced a statement of the estimated liabilities and assets of the Society as at the 31st December, 1960. This statement has not been audited, but has been prepared with the assistance of and in consultation with the Society's professional accountants and auditors, Messrs. Calder-Marshall, Ibotson and Bound. The figures are subject to further verification. A copy of the statement is attached to this report as Appendix C.

19. The statement discloses that after making an appropriate allowance for depreciation of the book values of assets there was an estimated overall deficit at 31st December, 1960, of £37,000 and at estimated realisable values of the assets a deficit of £15,000.

20. The realisable values differ from the book values in respect of office premises and cars. The estimated realisable values of the office premises (including sites) have been based upon the amount since realised in the case of one of the sites together with the figures agreed upon and entered in draft contracts for sale, other purchase offers received, valuations by a firm of professional surveyors and an estimate of one leasehold property. The figure for "Cars" is based upon the trade quotation of the middle market value.

21. The income tax liability is based upon the assessment for the whole of the income tax year 1960-61. In all accounts up to and including the year 1959 the Society had provided only for the income tax payable for the year of the account (i.e. to 31st December). The Society's liability to tax is assessed on the accounts for the preceding financial year. As a result, it should be noted, the interest paid or payable for the year 1960 on moneys invested with the Society will give rise to a large income tax liability for the income tax year 1961-62 which may have to be met from substantially diminished income.

22. No figures have been included in the statement in respect of any sum that may be deemed to be due to the Society from a limited company, Freehold Land Finance Company Limited, for the use by that company of the Society's premises, assets and staff. I do not know whether the Company would be able to pay any sum determined upon in respect of this arrangement. The association between the Society and the Company is commented upon in paragraphs 27-34 of this report.

23. Since the end of 1960, it is estimated that the Society's transactions have resulted in a further loss, possibly exceeding £5,000. The present overall deficit, therefore, subject to any recovery from Freehold Land Finance Company Limited, is in the region of £20,000.

24. Of even more immediate concern to the investing members, however, is the position with regard to withdrawability of shares. At the 6th February,

1961, applications for the withdrawal of shares totalling £1,088,776 were outstanding, equivalent to 30 per cent of the total share capital. The Society's cash balances at that date amounted to only £57,711. The investors had been led by the Society's advertisements to believe that withdrawals could normally be made on demand but that the Society reserved the right to require the notice of six months' provided for in the rules. Of the total of £1,088,776 outstanding at 6th February, 1961, however, £47,070 represented shares where applications for withdrawal had been made over six months' before. Bearing in mind the Society's current liability for income tax and the amounts due to other creditors, it is evident that the Society cannot hope to make any substantial progress towards meeting its obligations in respect of withdrawal of shares unless vigorous steps are taken to realise such of the saleable assets as are not required for the Society's business in the present situation.

25. I find it difficult to understand why decisive action along these lines was not taken months ago when the withdrawal situation became alarming. I was told that instructions had been given for the sale of branch premises, but the negotiations appear to have proceeded very leisurely despite a minute of the 64th meeting of the Board of Directors stated to have been held so long ago as 24th June, 1960, which records a resolution in the following terms:—

“It was agreed to make the necessary arrangements for the disposal or letting of all branch premises and building sites with the exception of Belfast, Edinburgh, and Glasgow premises.”

The branch premises (twelve in all) had obviously been acquired for the purpose of attracting investments in the Society's shares and the curtailment of the Society's activities in this respect by the Registrar's orders removed any justification for their continued retention.

26. The Society also possesses eleven motor cars, all but one of them bought in 1959 and 1960. The cost prices range from £561 (Austin A.35) to £5,835 (Ford Lincoln). There seems no reason why most of these cars should not be disposed of forthwith. There would seem to be little justification for the continued use of these cars by directors and officials in the present financial state of the Society. I was informed that one of the cars (Humber) was in use by a member of the staff of Freehold Land Finance Company Limited.

Freehold Land Finance Company Limited

27. My powers as Inspector do not extend to an examination of the affairs of any organisation other than the Society, but the relationship between the Society and the above-named Company has been so close that I feel that no report on the Society's affairs could be regarded as adequate without some reference to the Company.

28. The Company was incorporated in 1959 but does not appear to have become active until the middle of 1960, following the Registrar's order forbidding invitation by the Society or by anyone on its behalf to invest in the Society.

29. The chairman of the board of directors of the Company is Mr. Robert Jones. Mrs. J. I. Jones is also a director of the Company and another director whose name is recorded as “B. Hopkin, B.A.” is, I am informed, Mrs. B. M. Jones. Other directors have included Mr. R. G. W. Miles who acted at one time as solicitor for the Society, and Mr. G. Dyer, a member of the staff of the Society.

30. The Company occupies the ground and mezzanine floors of the premises of the Society at 21 Pall Mall, London, S.W.1, and its business is also conducted at the branch offices of the Society.

31. In September, 1960, a circular inviting deposits in the company was sent out. A copy of this circular is attached to this report as Appendix D.

32. A curious feature of this case is the priority given to certain shareholders in repayment of their shares before those who had made earlier application for withdrawal. These fall into two categories: (i) "hardship" cases; and (ii) transfers to deposits in Freehold Land Finance Company Limited. Mr. Jones told me he considered that a provision in the registered rules of the Society (rule 14(3)) to the effect that the board might at its discretion authorise withdrawals by members before the expiration of any requisite notice gave authority for this preference. Paragraph 4 of this rule, however, says that "amounts in respect of which notices of withdrawal have been given in the manner prescribed by the foregoing paragraphs shall be paid in rotation according to the respective dates upon which such notices expire." The fact remains that those members who asked to have their share moneys transferred to deposits in Freehold Land Finance Company Limited were repaid in most cases in advance of those who had made prior applications. The payments were made by cheques drawn by the Society in favour of the Company. A total sum of £46,000 was so transferred.

33. On the other hand, the Society has received cheques from the Company totalling £118,231 which on Mr. Jones's direction have been credited to the mortgage on the Oak Farm Estate, which was referred to in the Registrar's notice of intention to make an order under the Prevention of Fraud (Investments) Act, 1958, and to the mortgage on Mr. Jones's own property "Stilemans," Munstead Heath, Godalming, Surrey. The amount so credited in respect of "Stilemans," which is still mortgaged to the Society, is £35,000, made up of four payments £5,000 (15th November, 1960), £6,000 (6th January, 1961), £14,000 (6th January, 1961), and £10,000 (13th January, 1961). I asked Mr. Jones for written evidence of the authority for these payments to be credited to his mortgage account, but he has not produced such evidence. At the 1st January, 1960, the balance shown in the Society's books as outstanding on mortgage in respect of "Stilemans" was £59,480. Further advances are shown as having been made in 1960, £4,000 on 23rd March, £4,000 on 31st March, and £7,000 on 4th July. In addition to the repayments totalling £35,000 made by Freehold Land Investment Company Limited, a sum of £15,000 was credited in the ledger as repaid on 11th November. After adjustment for interest, the sum now due on the "Stilemans" mortgage, according to the Society's records, is £26,434.

34. I also asked for evidence of the terms, financial and otherwise, upon which the company occupied the Society's premises and amenities. None was forthcoming and the amount of the company's debt to the Society in respect of these users remains, so far as I am aware, unestablished.

Board of Directors

35. In paragraph 5 of this report I gave the names of the first directors of the Society, viz.: Robert Jones, J. I. Herman (who later became Mrs. J. I. Jones), J. Jones (Mr. Robert Jones's mother, who died in November, 1960) and B. M. Jones (former wife of Mr. Robert Jones). Mr. Robert Jones, Mrs. J. I. Jones and Mrs. B. M. Jones had continued in office up to the date of the Registrar's notice of his proposal to appoint an Inspector. Apart

from the late Mrs. J. Jones, there had been no other directors of the Society. Mr. Robert Jones had acted as chairman of the board of directors and secretary of the Society throughout this period.

36. On commencing my enquiries I was furnished by the assistant secretary of the Society with a copy of a document headed "Minutes of Meeting of Directors held at the head office of Lloyds Permanent Building Society, on Wednesday, 25th January, 1961, at 11 a.m." It appears that at this meeting, at which Mr. R. Jones, Mrs. J. I. Jones and Mrs. B. M. Jones were stated to have been present as directors, an attempt was made to pass a resolution removing Mr. Robert Jones from his offices as chairman, director and secretary on the ground of his refusal and neglect to act. It is stated that Mr. Robert Jones, the chairman, refused to put the resolution to the meeting, that Mrs. J. I. Jones then put it to the meeting and that it was passed by a majority vote. Both Mrs. J. I. Jones and Mrs. B. M. Jones informed me that they had acted in this matter on legal advice and considered that the resolution was valid and effective. Mr. Robert Jones told me that he challenged the validity of the resolution and maintained that he was entitled to continue in his respective offices in the Society and intended to do so.

37. On the 6th February, 1961, a further meeting was held at which Mr. R. Jones, Mrs. B. M. Jones and Mrs. J. I. Jones were again present. The copy of minutes produced to me by the assistant secretary records the following as a resolution purporting to have been passed at this meeting:—

"That in accordance with rule 33(1)(g) it is in the interests of the Society that Robert Jones should, and he shall hereby, immediately cease to be a director of the Society."

Mr. Jones again challenges the validity of these proceedings. Mrs. B. M. Jones and Mrs. J. I. Jones, however, informed the Chief Registrar by letter dated 6th February, 1961, that Mr. Robert Jones no longer held the offices of director and secretary of the Society "by virtue of resolutions of the board dated this day."

38. On the 9th February, 1961, a further meeting was held at which Mrs. J. I. Jones and Mrs. B. M. Jones were present. At this meeting it is stated that the board of directors resolved to elect Mr. Ernest Partridge as a director and chairman, and Mr. E. G. Roe as secretary, in place of Mr. R. Jones. Notice was given on the same day to the Registrar, in the statutory form bearing the seal of the Society, that these appointments had been made. Mr. Jones told me that, on legal advice, he rejects the validity of the proceedings purporting to remove him from his offices in the Society. As further legal proceedings may possibly be taken by one or other of the parties in this dispute I make no further comment on this issue.

39. The confused situation within the offices of the Society, however, resulting from these moves may well be imagined. Senior members of the staff told me that for many weeks past they had been unable to obtain proper instructions. The increasing flow of applications for withdrawal was, they said, causing considerable embarrassment and they were without reliable guidance on administration and financial matters. I believe, however, that Mr. Partridge, Mrs. J. I. Jones and Mrs. B. M. Jones are now endeavouring to take effective charge and that the staff of the Society are readily accepting their instructions.

40. I questioned Mrs. B. M. Jones and Mrs. J. I. Jones on oath as to their responsibility as members of the board for the conduct of the Society in the past and I pointed out that the minutes of the board of directors produced to me recorded their attendance at 65 meetings of the board, most of them

at approximately monthly intervals. Mrs. B. M. Jones informed me that, although she knew she was named as a director, she had never attended a meeting of the board or had been given notice of a meeting. Mrs. J. I. Jones said that she had shared in the administration of the Society up to about two years ago, but that she also had never attended formal meetings of the board as recorded in the minutes. The significance of this is that rule 29(1) of the Society provides as follows:—

"The business of the Society shall be under the control and management of a Board of Directors consisting of not more than five nor less than four Members of the Society of whom three present at any Board Meeting shall form a quorum; provided that if at any time the Board shall consist of less than four Members, the Board so constituted may act by a majority of its Members for a maximum period of six months. In case of equality of votes the Chairman may exercise a second or casting vote."

At all material times there were four members of the Board so that to be effective a quorum of three was required.

41. Mrs. J. Jones, who died in November, 1960, is shown as having been present at a few of these meetings, but for the most part the only members recorded as attending were Mr. Robert Jones, Mrs. B. M. Jones and Mrs. J. I. Jones. Mr. Jones does not agree that these meetings were not held. He says, however, that many of them were held informally and that the business transacted was approved by all the directors by general authority given to him. All the minutes with the exception of those of the meeting stated to have been held on 30th September, 1960, are signed by Mr. Robert Jones. I am not satisfied, however, that properly constituted meetings of the Board of Directors were in fact held.

42. These minutes show, *inter alia*, that a total sum of £94,550 was authorised to be advanced from the funds of the Society on mortgage to Mr. Robert Jones who is stated to have declared his personal interest.

43. The situation with regard to the past, present and future administration of the Society by the board of directors seems to me to call for early consideration. I am satisfied that for all practical purposes the Society in the past has been run under the sole direction of Mr. Robert Jones. He has dominated the Society and has been responsible in my opinion for all the effective direction of the Society's affairs and policy. His association with the Freehold Land Finance Company Limited and the use of the Society's funds for his own property transactions suggest it is doubtful whether the interests of the shareholders of the Society have always been his main consideration. On the other hand the failure of the other members of the board to act effectively as directors particularly from the time the Registrar began his enquiries under the Prevention of Fraud (Investments) Act, 1958, which were followed in due course by his orders under that Act and the Building Societies Act, 1960, has undoubtedly contributed to the deplorable situation in which the Society now finds itself and they bear a corresponding responsibility for this state of affairs. It should be mentioned that Mr. Robert Jones has received no remuneration from the Society for his services as secretary. The books show cash payments to him by way of director's fees, £4,000 in 1960 and £1,100 in 1959. A cash payment of £1,100 is stated to have been made to two other directors in respect of fees in 1958. I can find no authority for these payments. Rule 29(2) states that "the directors shall receive for their services such remuneration as the members shall from time to time decide at annual general meetings." The minutes of these meetings do not record any resolution to this effect. Mr. Jones has also drawn a total sum of £789

from the Society described in the Society's books as "travelling expenses" for which no detailed vouchers are apparently available.

Conclusion

44. My examination of the affairs of this Society up to date leads me to the conclusion that it is desirable that a meeting of the members of the Society should be called without delay and it is mainly in order that the members may have before them at such a meeting information as to the state of affairs of their Society that I have prepared this interim report. No general meeting of the Society has been held since 18th December, 1959. A notice of a meeting to be held on 30th December, 1960, appeared in *The Times*, but proper notice had not been given and the proceedings were abortive. The accounts for the year ended 31st December, 1959, which were delivered to the Registrar on 25th March, 1960, have not yet been laid before the members of the Society and they have never been given proper information of the deteriorating financial position of the Society following the critical publicity given to the affairs of the Society during the latter part of the year 1960. The failure to give adequate information to the shareholding members in these matters has, in my opinion, aggravated the situation with regard to withdrawals and confirms my view that the interests of the members have not always been the first consideration of the directors of their Society. I propose to continue my enquiries and to report further in due course.

DENNIS LEIGH,

Inspector.

17 North Audley Street,
London, W.1.
17th February, 1961.

COPY

LLOYDS PERMANENT BUILDING SOCIETY
Pall Mall, London

January 26th, 1961

The Chief Registrar of Friendly Societies,
17 North Audley Street,
London, W.1.

Dear Sir,

We refer to your letters of January 17th, 1961 addressed to the Secretary, giving notice of your proposal to appoint an inspector and to call a meeting of Members. From subsequent conversations with your Department and with members of the Society's Staff we are now fully aware of the seriousness of the situation and are determined to do all in our power to bring the situation under control.

With this in mind, and following an interview with Mr. Leigh on Monday last, we instructed the Society's assistant secretary to convene a meeting of Directors under the Society's Rule No. 36(1), and this meeting was called for Wednesday, January 25th, 1961 at 11 a.m. Notice of the meeting was handed to us on Monday evening, January 23rd and a copy was sent to Mr. R. Jones at his home address by registered post on the same evening. The following day we became aware that Mr. Jones was staying in an hotel in London and we instructed the assistant secretary to send a copy of the notice to him at the hotel. This was delivered on the evening of Tuesday, January 24th. A copy of the Notice and Agenda is attached.

The meeting was held on Wednesday, January 25th and duly constituted. The business under paragraphs 1 to 4 was duly discussed and in respect of paragraphs 3 and 4 Mrs. J. Jones was authorised to frame a reply to the Chief Registrar and the Society's Auditor. The Chairman refused to put to the meeting the resolution under paragraph 5 on the grounds of invalidity. Thereupon Mrs. J. Jones put the resolution to the meeting and it was agreed by the two undersigned, Mr. R. Jones dissenting.

The Chairman having dissented to the resolution to remove him from office we have today given the necessary seven days notice under Rule 33 (1)(g) of a meeting to remove Mr. R. Jones from the Board of Directors.

Once control of the Society is established we have the firm intention to institute the following plan of action to stabilise the position:

- (1) To reconstruct the Board by the appointment of a further three active directors whose names will be submitted for your approval in due course.
- (2) To call a special general meeting of the members of the society to place before them details of the present situation and to ask for their support.
- (3) To carry out the following administrative measures:
 - (a) To impose an immediate freeze of the funds of the Society.
 - (b) Reduction of the staff to a minimum necessary to carry on the routine business.
 - (c) Disposal of the Society's Branch premises.
 - (d) Negotiation for the transfer of some of the Mortgages, subject to the Registrar's approval.

These latter two in order to meet the current withdrawal position.

- (e) Subject to the revision of the financial position and to further discussions with the Auditors, to come to a satisfactory arrangement with the Members regarding the interest commitment in June 1961.

We would ask for your consideration of our proposals and intentions with a view to the postponement of your proposed actions in relation to the Society. We give our personal undertaking that the plan outlined above will be carried through by our constant attention to the Society's affairs.

Yours faithfully,

(Signed) J. I. JONES,
B. M. JONES,
Directors.

January 23rd, 1961

In accordance with Rule 36 (1) of the Society, notice is hereby given of a meeting of Directors to be held at 11 a.m. on Wednesday, January 25th 1961, at the Society's Head Office.

Agenda:

1. Notice of Meeting.
2. Minutes of previous meeting.
3. To consider the terms of the explanatory statement in writing called for by the Chief Registrar of Friendly Society's letters dated January 17th, 1961, under Section 5 of the Building Societies Act 1894 and Section 13 of the Act of 1960.
4. To consider the terms of the written reply to be given to Calder-Marshall, Ibotson & Bound's letter dated January 20th, 1961.
5. To resolve:
That in accordance with Rule 33 (1) (f) Robert Jones shall cease forthwith to hold office as Chairman, Director and Secretary of the Society on the grounds of his refusal and neglect to act.
6. To call a special general meeting of the members of the Society under rule 39 (1) for the purpose of placing before them the affairs of the Society.
7. Any other business.

(Signed) E. G. Roe,

Assistant Secretary.

COPY

LLOYDS PERMANENT BUILDING SOCIETY
Pall Mall, London

January 31st, 1961

Chief Registrar of Friendly Societies,
17, North Audley Street,
London, W.1.

We the undersigned Directors of the Society, submit the following explanatory statement by way of reply to your two letters of 17th January, 1961.

We have already addressed a letter to you dated 26th January setting out the steps we have already taken and our proposals for the future conduct of the Society, but we would now amplify those observations.

We, as Directors, have been in this difficulty—that Mr. Robert Jones, the Chairman and Secretary, has been in *de facto* control of the affairs of the Society virtually single-handed for almost the past two years. Until about October of last year neither of us has been available to attend to the affairs of the Society because of ill-health, the one of us underwent a serious major operation and the other suffered a prolonged nervous breakdown, but we would like to stress that we were in fact actively discouraged from taking any part in the Society's affairs. Our inability to give close attention to the affairs of the Society caused us concern at the time, but in response to requests we made for information as to the Society's affairs we were repeatedly given assurances by Mr. Jones that the affairs of the Society were in order and being properly conducted. In particular, when we asked whether or not an Annual General Meeting was to be held for the year 1960, we were assured, in response to that inquiry, that in fact the Meeting had already taken place, and that he, Mr. Jones, had met the shareholders and that all were fully satisfied. We now know that we were misled in that respect by Mr. Jones, as in many other respects, and we realise that we must now take a firm hand. It was a great shock to us to learn that matters were as they are now known to be.

We find ourselves at short notice compelled to carry out a complete investigation into the affairs of the Society, which unfortunately cannot be completed in time for the results to be included in a statement to be made within the statutory fourteen days. It is our intention to pursue the investigation with the utmost diligence until we have a complete picture of the position of the Society. We will then call a meeting of the members of the Society in order to put the position before them. In the meanwhile we shall take every step necessary to safeguard the Society's assets and, in conjunction with the newly constituted Board, to conduct the affairs of the Society in the best interests of its members. In this connection we have already dismissed Mr. Jones from his position as Director and Secretary. He is disputing the validity of the dismissal and accordingly it has been necessary to call a meeting under the Society's Rule 33 (1) (g), which meeting is taking place on Monday next February 6th, 1961. At that meeting, we are advised, Mr. Jones will be legally and validly removed beyond all question. We have already invited Mr. Ernest Partridge, C.B.E., M.P. to join the Board of the Society and he has accepted. In accordance with your desire he will be calling upon you at 11.00 a.m. tomorrow, February 1st.

You will appreciate from the foregoing the difficulty we have in giving detailed explanations of the specific matters referred to in your two letters, but we trust that our explanations have been sufficient to show the way in which the Society's affairs had been conducted in the past. This state of affairs is to be regretted but we do assert confidently that all activities of the Society will at the earliest possible moment be put on a proper basis and so maintained.

We submit the following observations on the specific points raised in your two letters.

As to the failure to hold a General Meeting since the end of the year 1959.

We are informed that a notice advertising such a meeting appeared in *The Times* of 16th December, 1960, and that, although the advertised meeting was attended by two members, such meeting was not properly convened and therefore is invalid. The

1959 accounts will be laid before the members at the General Meeting which will be called in the near future.

As to the failure of the Board of Directors to report the position of the Society to the members.

As stated above, we were informed by Mr. Jones that the affairs of the Society were in order and that all requirements concerning members, both statutory and otherwise had been observed.

As to the failure of the Board of Directors to give proper attention to the affairs of the Society.

We recognise the failure of the Board which arose from the action and conduct of Mr. Jones, and we have taken the drastic action upon legal advice of dismissing Mr. Jones from the Board and from his position as Secretary.

As to the abnormally large number of applications for Withdrawal.

This has arisen from the fact that the Chairman withheld from the officials of the Society, who should have answered letters addressed to the Society, the authority and information essential for a rational answer to be given, and thus they were unable to send any answer to such letters. The uneasiness of members was aggravated by the fact that members failing to get a reply communicated with the Press and adverse publicity resulted therefrom, thereby creating a vicious spiral.

As to the preference given to certain shareholders.

In the light of our present knowledge we are compelled to admit that the preference was fundamentally wrong and cannot be defended, as is attempted to be done by Mr. Jones, who would read the Society's Rule No. 14, subsection 3, in isolation and without any regard to all other subsections of that Rule, in particular subsection 4.

The investigations that we have been able to make thus far lead us to believe that under strong and virile management the interests of the members of the Society can and will be protected and that, provided the members are encouraged to regain confidence in the Society, it can rebuild on solid and sure foundations. The report to members which it is intended shall be sent to them as soon as possible will help towards this end: the General Meeting of shareholders will further consolidate the new confidence.

(Signed) J. I. JONES,
B. M. JONES.

LOYDS PERMANENT BUILDING SOCIETY

APPROXIMATE STATEMENT OF AFFAIRS AS AT 31ST DECEMBER, 1960

LIABILITIES		ASSETS		Book Values	
	Estimated Realizable Value £		£		£
SHARE CAPITAL					
Subscription Shares	7,282	MORTGAGES	House mortgages after debiting £231,900 interest for 1960 ...	2,940,000
Prepaid Shares	3,577,543		Building Finance Mortgages after crediting £111,231 received from Freehold Land Finance Company
Accrued Interest	84,132			306,487
		3,668,957			3,246,487
Deposits (including £1,427 accrued interest)	88,737 1,427	90,164	CASH AT BANK	16,914	
			Bank of England (contra shares)	1,450	
			Other Banks... ..		
INCOME Tax—fifteen months to 5th April 1961 (preceding year basis)	66,760	18,364	OTHER ASSETS		18,364
SUNDAY CREDITORS			Sundry Debtors and Payments in Advance		
Sundry Accounts	2,315	Office Premises		
Accrued expenses	963	Motor Cars		
Audit and accountancy fees	5,000	Office Furniture and Equipment		
Legal costs	1,000	Office Machinery		
P.A.Y.E.	4,100			
		13,378			536,627
					£3,839,259
					£1,823,746
					£3,801,476

FREEHOLD LAND FINANCE COMPANY LTD.
BANKERS

21 Pall Mall, LONDON, S.W.1.
 Telephone: WHItchall 8501 (10 lines)

September, 1960

Dear Sir or Madam,

This Company, as you will note, is a banking organisation under similar direction to that of Lloyds Permanent Building Society and I am taking the liberty of forwarding for your perusal our Brochure, which sets out the salient features of our policy and investment service.

Although the basis of the Company's policy is investment in Freehold property, thus ensuring the maximum possible security, its constitution permits it to invest on more favourable terms than those enjoyed by a Building Society, and this advantage is reflected in the more attractive rates of interest offered to depositors.

The types of deposits available to investors include —

Annual Contract Deposits

Annual Contract Deposits with the Company yield interest at 5½ per cent per annum, tax paid. A penal rate of 3½ per cent is applied to sums withdrawn before the expiration of the full twelve month period, thus reducing the interest payable by 2 per cent.

Twelve Year Term Deposits

Twelve Year Term Deposits yield interest at 7 per cent per annum tax paid, capital and interest being repayable in full on completion of the term. Should a depositor wish to withdraw the whole or part of the sum deposited before the completion of the full term the interest payable is reduced to 3 per cent tax paid.

Facilities also exist for the payment of interest without deduction of tax under certain conditions, and full details of this procedure may be obtained by application to the Company. Deposits of this type will be primarily of interest to investors who are not subject to the full rate of income tax.

The Company's aim is to provide depositors with the most attractive rates of interest consistent with maximum security and it is confident that these terms will meet with a ready response.

Additional information on the Company's policy and structure is provided in the enclosed Brochure but I shall, of course, be glad to answer any further enquiries you may have.

Yours faithfully,

G. DYER,

p.p. Investment Manager.

Enc:

Directors: R. JONES, Chairman. HON. LEONARD HALL. R. G. W. MILES, LL.B. G. DYER, L.R.I.B.A. B. HOPKIN, B.A. I. C. CLUNAS, M.A. J. I. JONES. R. A. DAVIS. *Secretary:* E. H. BUTFIELD, A.C.I.S.

Local Branch Offices:—

27 Gordon Street, Glasgow, C.1. Tel.: CENtral 8451.
 34 George Street, Edinburgh. Tel.: CAledonian 7562.